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C O N F I D E N T I A L SECTION 01 OF 03 BEIRUT 000533

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NSC FOR ABRAMS/SINGH/YERGER, STATE FOR NEA/ELA,

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TAGS: [EAIR](#) [ECON](#) [ELTN](#) [ENRG](#) [EPET](#) [EWWT](#) [LE](#)

SUBJECT: LEBANON: EGYPTIAN GAS DEAL WILL REDUCE COSTS,
MINISTER SAYS

REF: BEIRUT 499

Classified By: Ambassador Michele Sison for reasons 1.4 (b) and (d)

¶1. (C) Summary: Minister Mohammed Safadi received Charge for her initial courtesy call in his private sector company office, where he also handles the work of two ministries, Public Works and Transport, and Energy and Water. He supports the Megaports project, but wants his port director to be briefed. The Kleite airport project is on hold. Egyptian natural gas will soon arrive in Lebanon, reducing the cost of electricity by \$200 million/year, and cheaper electricity from Jordan is a possibility. A project to install new electricity meters is facing obstacles, as is alternate energy. Safadi wants to see competition for Middle East Airlines, both in managing the airport operations and air service. However, he sees reform in Lebanon as difficult. End summary.

¶2. (C) On 4/16 Charge and Econoff met with Minister Mohammed Safadi in his private offices in downtown Beirut. Safadi currently is responsible for two major ministries: his own, Public Works and Transport, and that of resigned Minister of Energy and Water Fneish. He is well suited by experience for these portfolios, since his personal wealth, which is extensive, was earned in complimentary sectors, such as real estate development, aviation, technology and telecommunications. He continues to operate his business interests while serving as a minister. Safadi volunteered little, but readily responded to Charge's inquiries with full explanations of his ministries' projects.

MEGAPORTS PROJECT

¶3. (C) Safadi expressed no concern over the USG-funded Megaports project, which will result in scanners installed at the port of Beirut to detect radioactivity, principally in scrap iron. He was, however, concerned that his port director, Hassan Kraytam, did not appear to be fully conversant with the plan. Charge promised to satisfy his concerns. (Note: Kraytam had been briefed both by Embassy and the DOE Megaports team. Apparently his concern is that he has received no information about the project from superiors in the GOL. Customs, which is in the Ministry of Finance, will actually sign the MOU and run the project.)

KLEITE MILITARY AIRPORT
PROJECT ON HOLD

¶4. (C) Safadi explained the lack of progress in the

conversion of the Kleite Airport in northern Lebanon from a military to a commercial site: it will be too expensive. The airport was originally designed with U.S. security concerns in mind, and so it has state-of-the art security systems. That makes it expensive to run, so although it started out as a Buy-Operate-Transfer (BOT) no one, including Safadi's personal company, would bid on the project. However, the GOL wanted it built and so it was, with no consideration given to the costs. After the damage caused during the July 2006 war, the airport was repaired and brought to a state of operability, but it is not used, and there is little interest in reviving the project. In Safadi's opinion it does offer the potential for commercial activities, such as a center for a regional or "feeder" airport. Currently the buildings at the airport, but not the runway, are used by the military.

EGYPTIAN GAS SHOULD
REACH LEBANON SOON

15. (C) Safadi attended the Arab energy ministers conference in Damascus last February, the first official GOL visit to Syria in perhaps two years. Safadi said he was able to conclude a deal with Egypt to supply Lebanon with natural gas. This deal, which avoids direct interaction between Syria and Lebanon, provides natural gas to the Deir al-Amar plant in the north from Syria, which in turn will receive an equal amount of Egyptian natural gas at its southern border with Jordan. At this point Safadi says that Syria needs only to provide some additional "technical gadgets" which Egypt will supply, to be ready. But Syria still has a bigger issue to resolve, since currently Syria is unable to use the gas provided, and needs to build up its consumption gradually, over a two-to-three month period. After that, if all goes as

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expected, Lebanon will convert the Deir al-Amar plant to gas only. This will not increase the capacity for Lebanese electricity production, but will reduce costs by \$200 million/year.

MORE EGYPTIAN GAS REQUIRES
INFRASTRUCTURE, CONTRACTS

16. (C) In the long term Safadi is looking at ways to feed more gas into the system, and provide additional power. Jordan is currently using most of the supply of Egyptian natural gas, although Safadi questions their right to the total amount. Syria is entitled to about 50 of the 400 megawatts provided, but that is available only at night and usually Syria does not need it, so Jordan takes that as well.

In order for Jordan to provide additional Egyptian gas to Lebanon it would require new lines; an option only if Lebanon and Syria would agree to sign a fifteen-year agreement with Jordan which would include fixed carrying costs. That is a long-term solution at best.

POSSIBILITY OF ELECTRICITY
FROM JORDAN

17. (C) A short-term option involves political issues, mainly the right to a share of the gas provided to Jordan. Jordan is ready to provide electricity to Lebanon, rather than gas, through the use of an idle plant, which uses diesel, and so generates more expensive electricity than using gas. Lebanon really has no choice, since the 70-100 megawatts produced in that plant would still be cheaper than the diesel-generated electricity from Baalbek or Tyre plants: \$.22 vs. \$.28 per kilowatt hour. Jordan is ready, but the project hinges on the Syrian completion of the last 100 meters of a transmission line. Work is promised, but Safadi is not convinced that it will be done "immediately," as promised.

ALTERNATE ENERGY POSSIBLE,

WITH ASSISTANCE

18. (C) Safadi spoke of contacting the EU to discuss alternate energy, which is a special interest of the EU. The response was that the EU Paris III donation of 40 million Euros has been committed to projects already, and although not hopeful, EU officials will consider other projects. But 100 megawatts of alternate energy would do a lot, so Safadi wondered if the U.S. could play a role in supporting that initiative. Safadi has also approached the Saudis to provide funds for maintenance for two of the older power plants. This is critical since on the ground Safadi believes he has achieved nothing to resolve Lebanon's power problems, and the situation is worsening. One small improvement: new transmission lines will be ready in June or July, which will offer a reduction in transmission losses.

METER PROJECT FACES OBSTACLES

19. (C) The Ministry was working on a major project to install new meters: 800 primary, 1200 secondary and about 1.2 million meters for homes. The tender was out but all bidders withdrew after the January clashes between the armed forces and Shia demonstrators resulted in the deaths of eight Shia civilians. Now the effort is concentrated on supplying only the essentials, under a supply contract, without including maintenance. Even this is uncertain, since the international suppliers are reluctant to bid. As Safadi pointed out, the GOL is constrained even in areas where they can act without approval of the parliament or president. However, they are also limited by the lack of a sitting parliament. Even small but necessary laws can hold up major improvement projects, and fuel costs are "killing us," said Safadi. Approaches to the Iraqi government, and specifically the Minister of Petroleum, have remained unanswered.

AIRPORT MAINTENANCE
SHOULD BE CHEAPER

110. (C) Safadi was specifically cited as one of the problems facing MEA during a recent Embassy meeting with MEA Chairman Mohammed al-Hout (reftel). Charge asked Safadi about his interest in bidding out the airport contracts for

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maintenance. He responded that he hopes to generate competition, which he says is not easy in third-world countries. He "hopes that MEA will win" the contract, but thinks that the cost to the GOL will be around \$12 million, as opposed to the current expense of \$18 million. He is also interested in generating competition for MEA's air carrier operations.

SAFADI STILL WANTS
COMPETITION FOR MEA

111. (C) Two years ago Safadi says he "pulled out" of competition for alternate airlines in Lebanon, but says that the PM "touched on it" again. MEA has a monopoly which runs out in 2012, and Safadi sees an opportunity for other carriers, either franchised by MEA, or in free competition for destinations not served by MEA. In his opinion, it is about creating jobs, since every additional plane flying out of the Beirut International Airport (BIA) would create 100 additional jobs, he said. "Reforms are very difficult," said Safadi, predicting that MEA will win this battle.

COMMENT

112. (C) Safadi is a Sunni businessman who heads a bloc of five MPs that is part of the March 14 coalition. He is new

to government as of 2005, and is rumored to have his eye on the position of prime minister. He does not appear to see any conflict of interest between his private business operations and his government role. He works out of his private company offices, and his staff work for him in both capacities. He has been open about his interest in competing with MEA, which is owned by the Central Bank of Lebanon, and is currently building his own hanger at Beirut International Airport, on government land that he awarded to himself and others in his position as minister. End comment.
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